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The Young Branch Manager

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CHAPTERS

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THE YOUNG BRANCH MANAGER.

THIS series of articles prepared under the direction of the Editing Committee of the Journal of the Canadian Bankers' Association began in the January, 1916, *number, and the final chapter was published in January,* 1917.

During this period the circulation of the Journal in the Canadian banks showed a material increase, and many of the new subscribers missed the earlier chapters. A number of suggestions have since reached the Editing Committee that the usefulness of this effort upon behalf of the younger Canadian bank officers might be extended. The re-publication of the articles in the present form is the result.

The Young Branch Manager

ARTICLE I.

IT has been suggested that the younger men in the banks —juniors, ledgerkeepers, discount clerks, tellers, etc.— would, perhaps, be interested in a discussion of the difficulties that often confront a young manager, just placed in charge of an office and anxious to stand well with his head office and with his customers. These younger officers are looking forward to the time when they will be accountants and managers; many of them are in sight of the goal, and if they can contrive to obtain advance information of some of the principal problems that perplex a new and inexperienced manager, the knowledge may be of some assistance to them. Let us then consider a few of the points that apply to a situation of this nature.

Apparently a considerable number of bank officers are of the opinion that it is practically impossible to give complete satisfaction at both ends—to Head Office and to the customers. In their view the interests of the customers are well nigh irreconcilable with the wishes and purposes of the general manager. However this view is scarcely correct. In making loans the Head Offices wish the transactions to conform to certain basic principles and rules which have long been regarded as governing sound banking business, and many successful managers have shown that it is possible to observe these rules with faithfulness and retain in the largest degree the good will and esteem of the customers and of business men generally.

A point which every manager should clearly understand is that Head Office is just as anxious as are the branch officials to get good business and make profits. The standing of the general manager with the board of directors depends on his ability to handle the resources of the bank safely and at the same time to report satisfactory earnings. This is strongly emphasized, because certain of the

young branch managers at times may act as if they thought Head Office was trying to drive good business away or finding fault for amusement. Instead of this they should recognize that Head Office is seeking exactly the same ends as they (the managers) are—namely, to fill the books with sound and profitable business; but the officials in charge of the central executive are far more experienced than most of the managers—they have a better knowledge of what constitutes sound business. It will be in order, now, to indicate or mention some of the unwise methods that lead directly to trouble and friction. Of course the great majority of troubles arise in connection with the loans and discounts and the discussion in the article will be confined to that department of banking.

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First of all it is important that the young manager strike the right attitude. He is the confidential representative of the bank at the point where his branch is located. His duty is to lend the bank's money on suitable security to parties of the requisite standing who will make profitable and legitimate use of the funds, and be ready to pay them back shortly on the date agreed upon. Manifestly if the manager habitually or frequently assumes the position of an advocate for the customers, he is in a false attitude, and is headed direct for trouble. When the manager proceeds as if he held a brief for the customer, the whole tone of his communications to Head Office may be wrong. The letters to the general manager may be full of excuses and explanations as to why certain customers did not pay off their loans as agreed, or why they did not provide the stipulated security. And as regards the rejected application, perhaps the manager explains to the customer that he would be glad to do it himself, but is forbidden by his Head Office. That, of course, is a weak position for a manager to put himself in, because if it occurs often, a thoughtful customer will conclude that Head Office does not seem to be much impressed by Mr. So-and-so's recommendation, and that he had better move his account to a bank where the local manager carries more weight with his superiors. Thus the manager's standing with the customers is impaired and his faculty of constantly or repeatedly sending down applications for credits which cannot be justified or approved, weakens him with the bank's executive. In other words, persistence in a false attitude of this nature may easily deprive the manager of the regard both of Head Office and the customers.

Again it should be remembered that if the manager is to retain the respect and esteem of both parties he must be

truthful and square with both. It is not wise to use deceit in either direction. Sometimes, on receiving an application from a party whom he has perhaps encouraged, the local banker may find features which are so unfavorable as to destroy the chances of a credit being granted. To forward the application in this condition would make the manager appear foolish in the eyes of the general manager; and yet the customer may have been given to understand that his proposition would be sent on, backed with a strong recommendation. In a case of this kind there is a temptation to take the application with all formality, pigeon-hole it at the branch, and, after sufficient time has elapsed, inform the intending borrower that Head Office has declined to grant the credit. This is another version of the policy of unconsciously taking the customer's side and using Head Office as a wet blanket as regards new or increased business. The mistake arises in the first place through giving assurances or quasi-assurances before having acquired a full knowledge of the customer's position and circumstances.

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If the local manager had preserved the right attitude from the beginning he could without any difficulty take the right and honorable course when the defects of position were discovered. The proper method would be, in most cases, to explain to the customer that the weaknesses referred to stood in the way of a favorable reply from Head Office, that it was useless to send forward the application in that form, and that the best thing to do was to abandon the idea of the new credit or endeavor to rectify and strengthen the proposition in such manner as to make it acceptable to the bank. The manager of course could give his best assistance in making the necessary changes, if possible or practicable to make them. In a considerable number of instances it is possible for the manager to suggest means whereby the matter can be submitted in a form that will commend itself to Head Office. This does not imply that the manager should conceal the unfavorable features or put them in the background. What is meant is that frequently a banker is in a position to suggest certain steps which the customer can take and which will have the effect of so improving his position as to make his statement an acceptable basis for granting credit. Assuming that the loan is wanted for a legitimate purpose and that the weakness of position is not fundamental, such suggestions might be along the line of furnishing additional security of a suitable nature, or to the effect that the applicant proceed to convert fixed property, or property that is unavailable for the bank's pur-

poses, into liquid assets on which the bank can advance funds. In this way the genius or skill of an expert banker is frequently manifested.

An officer who has had no previous experience in the work of dispensing credit, naturally has difficulty at first in deciding which of the propositions submitted to him are sound and which unsound. The difficulty in judging loans is to some extent reduced if the banker keeps constantly in mind the basic principle that banking credit should be based on the production and marketing of salable goods, to be liquidated as soon as they enter into consumption. This is one of the fundamental rules, and any other credits accorded by the bank should be considered as exceptions.

A manager may receive a proposition which he believes is quite sound, in spite of certain features which are unfavorable. In forwarding the application he may be tempted to omit all mention of these features because he fears that they may cause Head Office to turn down business which is perfectly good. However if he puts forward the favorable points only, in nine cases out of ten the others ultimately come to light; the result is that his statements to Head Office thereafter are discounted, and good propositions not fairly subject to any discount may pay the penalty. Perhaps the bank then appears to the customer to be unreasonable, but the manager is really to blame.

It will be interesting to note the particular forms of weakness of position, or unfavorable features of an applicant's position, that are most commonly omitted by the branch manager when sending to Head Office requests for credit.

First of all let us take the case of a new account, probably coming to the bank from a rival institution. It is obvious that in a case of this kind the branch manager should give complete details of all the relevant facts and circumstances. At the outset there must be a full explanation of reasons for leaving present bankers. This is a most important point and if the manager is not fully satisfied that he has the real reasons for the proposed transfer, a searching enquiry should be instituted. Otherwise, when it is too late to avert loss, it may be discovered that the other bank unloaded a weak or undesirable account. The general manager's suspicions will not be entirely removed unless very convincing evidence is submitted. Then, with reference to new accounts, branch managers frequently omit one or more of the following: information re antecedents and previous history of the business, profits in former years, commercial agency reports, etc.

These are all pertinent to the matter of the application and Head Office expects to be supplied with information relating thereto. When the history or antecedent events of the applicant's business life are omitted, the difficulty of judging the credit is considerably enhanced; and there is a strong probability that the general manager will conclude that the details withheld may not be favorable.

Information regarding previous profits should be given, because the bank desires to lend its money only to parties who will make good and profitable use of it, thus increasing the production and wealth of the community and of the country. It is not good banking to lend money, no matter how well secured, to a man who will lose it in unprofitable or unwise operations, and the story of the applicant's success or failure in previous years will very likely shed light on the question of his outlook for the future. The banker must, of course, satisfy himself that the statements of past profits and successful operation are reliable. So far as the commercial agency reports are concerned, the bank does not by any means depend solely on them in judging the matter of a credit, but Head Office always desires to know what they have to say about the applicant, how they rate him, etc. Frequently they supply information, not otherwise available, that is of considerable assistance in deciding the question.

ARTICLE II.

IT is important that the correspondence with Head Office be conducted in an efficient and satisfactory manner. Head Office has hundreds of proposals submitted and a strictly limited time available for considering each one. Therefore the manager who can present his case with the essential points clearly and concisely explained probably gets the best results. Many a good proposition suffers because of the manner in which the manager puts it forward, and perhaps its rejection injures the bank locally.

In the branch correspondence dealing with applications there is frequently lack of definiteness in setting out the *precise* terms of the credit desired, particularly as regards character and value of securities. For example, when bonds or stocks are offered as security, the manager in many cases gives the par value only. This of course does not suffice for Head Office purposes. What is required is the existing market or probable salable value. Perhaps this omission arises because the stocks or bonds suggested as collateral may be the

issues of local concerns and the market value thereof not very well established or very clearly defined.

It may be said that as a general rule these local stocks and bonds are not very suitable as security for bank loans for the reason that they have not a quick market. If the securities are those of a large corporation, quoted daily or frequently on the Montreal and Toronto exchanges, this objection does not apply. In that case there is no difficulty in giving the current market value and the proposition to which they refer thus takes a much more definite shape. Probably it is the difficulty of obtaining accurate or reliable information as to the real market value of these securities that is responsible for the omission of details. There may have been no recent transactions locally, and it may be the case that when a holder wishes to sell, the only thing to do is to wait weeks or perhaps months until some other local party becomes possessed of the mood to buy. Reflection on these points should show the branch manager why it is that these local securities are regarded as unsatisfactory collateral, and it is usually good policy not to encourage the customers to expect advances on them. Of course there are exceptions, and it may be advisable on some occasions to take these items as a means of strengthening the bank's position in connection with certain accounts.

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Vagueness is sometimes found in letters to Head Office written in connection with proposals for loans based on assignments of accounts. All mention of the amount of accounts assigned to the bank may be omitted. To Head Office this is an irritating omission. As in various other instances, it may be necessary to write a special letter to the branch asking for the information. The amount of the accounts assigned should be clearly stated, together with information as to their collectibility. With reference generally to the matter of bank loans against assignments of accounts, the banker remembers that there are certain accounts which can be accepted with propriety as security for advances. For instance an account due to a merchant or manufacturer by a railway company or some other strong corporation or by a government department may constitute a legitimate and safe basis for an advance. In these cases the party owing the money should be served with formal notice of the assignment, and it may be advisable to have certificates or acknowledgment from the debtors as to the amount of the debt. Loans to wholesale and retail merchants and other business men against assignments of their book accounts generally are not looked upon with favor, and there is good

reason for shunning them. The regular method is for the creditor to take notes from his debtors who are in good standing and utilize them as trade bills for discount or collateral for loans.

This is the best way of advancing funds on the security of debts due to the bank's customer. If the signatures on the trade bills or collateral notes are genuine there is then no doubt as to the bank's right to collect from the debtors, and at the same time the amount of the security is clearly defined. On some occasions however the bank may find it necessary to bolster up a somewhat weak loan or liability through taking an assignment of the customer's book debts. Of course when this is done the branch manager should be particular to state the amount of the accounts assigned and also something as to their value. The question of sending formal notice to debtors would be decided according to the particular circumstances of the case.

As the customer's balance sheet is at the base of the credit granted by the bank, it is especially desirable that there should be no vagueness or lack of definiteness in the presentation of this feature by the branch manager to Head Office. There should be full particulars of assets and liabilities. A few of the points which inexperienced managers are apt to overlook we may now discuss. The customer usually shows among his assets a certain amount of bills receivable. This will be independent of or apart from his trade paper under discount. Of course the trade bills discounted by the customer should not figure among his assets in the balance sheet. He has sold them to the bank and received the consideration. However, the amount of trade bills under discount should be given as a footnote to the balance sheet. These discounted trade bills constitute a contingent liability of the customer and he may be required to take up certain of them if the promisors or acceptors fail to do so. Therefore it is important that the Head Office of the bank be well informed regarding the character and collectibility of trade paper under discount.

The manager should provide this information, and should also make a brief report on each one of the larger risks, mentioning at the same time the extent to which other customers of the bank are indirectly liable. In dealing with the accounts and bills receivable which appear in the balance sheet as an asset it is necessary to give information regarding the nature and value of the asset—whether the items composing the total are of good quality, a large percentage being collectible. Reliable information on this point helps Head

Office to arrive at a satisfactory conclusion regarding the customer's position and regarding the nature of the risks he takes in selling on credit. It should be said that inasmuch as Canadian banks are always ready to discount the good bills receivable belonging to reputable customers, there is not likely to be an excessive amount of these shown as an asset. If the amount is large it invites inquiry.

Then the item "merchandise," which usually figures importantly among the assets, should receive more attention than some managers accord it. In case of a merchant's statement some explanatory remarks should be given making it clear as to the character or nature of the stock of goods—whether slow or quick selling, well or ill selected, whether or not the stock appeared excessive, etc. The great point on which Head Office desires to be informed in this connection is: To what extent can this stock of goods be relied upon as a quick or live asset? With manufacturing customers another point comes in for consideration. It makes much difference in some cases whether the merchandise is manufactured, partly manufactured, or in the form of raw material.

If the raw material is a cash article—bought and sold for cash—there will probably be a ready market at any time for the whole of it, and it therefore constitutes a desirable or suitable security. When this raw material takes a different form—being partly worked up into the article which is produced—it is perhaps not readily marketable. In the event of the bank taking over the security it might be necessary to expend considerable sums in completing the process of manufacture before the asset could be realized. Again, with reference to the wholly manufactured goods, if there is a durable market for them at satisfactory prices, the bank can presumably realize at once. Hence the manager should be particular to explain how much of the merchandise is manufactured, how much partly manufactured and how much raw material.

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As regards the item "merchandise" it should be specifically stated by the branch manager, when forwarding an application, whether the inventory is based on cost or selling price. When a merchant takes stock he should value his goods at cost price, not at their supposed selling value. However, some customers, through ignorance or with intent to deceive, make up the inventory on the basis of selling prices. Thus they show a larger surplus than is warranted. This is a point about which the manager should make specific inquiries. Mr. E. L. Stewart Patterson, in his "Banking Practice and Foreign Exchange,"

refers as follows to the matter of valuing the merchandise for credit purposes.

"It is important to know if the figures are the result of actual inventory at cost price and also on what basis old or unsalable goods have been included. In revaluing the merchandise for credit purposes due consideration must be given to the nature of the business. A deduction of 10 per cent. is generally sufficient for staples such as groceries, provisions, iron and leather, while on goods partaking of the nature of luxuries, or depending for their sale on changing fashions or seasons, there should be a much heavier discount. It is always advisable to look over the stock as occasion offers. Another good plan is to keep a record of the result of local liquidation sales of goods and receivables; no better object lesson can be found as to the realizable values of the different kinds of merchandise."

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A number of the foregoing points may come up in connection with the regular accounts as well as in the case of new applications. It is quite important for the branch manager to convince Head Office that his oversight of the credits standing in the books is all that it should be. Of course new balance sheets are required periodically in their cases to permit of comparison, analysis, etc. It is advisable for the branch officials to watch the movement of certain percentages as shown by these balance sheets in successive years. Very important information may be discovered through watching three of the percentages in particular. The first of these is the percentage of sales to merchandise on hand. A healthy state of affairs is indicated when the sales are large in comparison with the stock of goods on hand; and if from year to year the percentage of sales to merchandise shows a marked tendency to decrease, the manager is put on enquiry. The circumstance may mean that the merchandise includes old or dead stock, or that the business is suffering from some sort of mismanagement.

Next the percentage of accounts and bills receivable to sales demands careful watching. Unsoundness may be denoted if this shows a persistent tendency to increase. Such tendency would point to bad debts not written off or slackness in making collections. And, thirdly, attention should be given to the percentage of current liabilities to liquid assets. In regard to this the generally accepted rule is that the current liabilities should not, except in a few special cases, exceed 50 per cent. of the liquid assets. If this percentage tends to increase from one year to another it is not a good sign. In a

healthy and prosperous business the movement is much more likely to be in the other direction. If this percentage moves steadily upwards, the manager should not allow himself to be unduly impressed by the fact that the surplus shown by the balance sheet is increasing. The actual surplus probably is shrinking.

ARTICLE III.

IT is regarded as a shortcoming if the branch manager, in sending down the application of a manufacturing customer, fails to come forward with intelligent remarks concerning the prevailing market conditions for the customer's output. This bears strongly upon the time and source of liquidation of the bank's loans, something which managers are expected to fully look into. Often the Head Office is forced to make enquiry regarding details of cost of manufacturing or of producing the manufactured article, the probability of the customer being able to dispose of the same, the likely selling price, etc., etc. Information on these points is necessary to judge the loan, and if it is omitted, Head Office perhaps is forced to write a special letter to the branch requesting the desired particulars. In the meantime, consideration of the credit is delayed and unnecessary irritation has been engendered.

Before consenting to advance its money the bank wishes to be assured that the customer will make profitable use of the credit, and that for all he produces there exists a steady market at prices yielding a satisfactory profit over and above all costs and expenses. Also, it is necessary that the bank's loans at all times shall be represented by salable merchandise or collectible debts. The duty of the branch manager is to convince Head Office to this effect.

The balance sheet may show sundry assets, such as mortgages and investments, owned by the customer. In many instances these items are not large enough to call for special or extended explanations. Where, however, they are so important as to affect the customer's position materially, the particulars should be given for the information of Head Office. It happens sometimes that the assets shown under the head of mortgages represent bad or slow debts for which security has been taken; and under the head of investments there may easily be concealed serious weaknesses. For example, the customer might have embarked in some speculation or venture foreign to his regular business, which put him under the obligation of paying numerous installments at successive dates. His statement might show the first one or two payments as an

investment, and make absolutely no mention of the liability in connection with installments not yet due. The manager, of course, should be informed about these items, and should not neglect to acquaint Head Office with the details when they are pertinent to the matters under consideration.

In order to keep themselves well posted in regard to the affairs of their customers, branch managers find it necessary to search at the registry office, from time to time, the real estate property appearing in their customers' statements, especially if the amount or value is important. At times there are secret transfers to near relations or others, which, if allowed to pass unchallenged, may seriously prejudice the customer's position toward the bank. Early knowledge of such transactions may enable the bank to take proceedings that will avert loss. Thus, in cases where necessary, the Head Office expects to be informed as to the date on which the real estate was last searched. Needless to say, it is taken as an evidence of good and careful management if the date of the last search is reasonably close to the date of the application for credit and manager's letter of recommendation.

The question of insurance should also engage careful attention. It is advisable to make it quite clear to the Head Office whether adequate fire insurance is carried, both on the liquid and the fixed assets of the customer. Frequently in sending down a balance sheet and application, the manager neglects to comment on apparent shortages in this respect. The statement may show large assets and a totally inadequate protection against loss by fire. The bank does not wish to lend its money freely or liberally to parties who deliberately run big risks in this way. So where there is apparently an unusually large opening for disaster, it is expected that the manager furnish the explanation. There may possibly be an explanation which will clear the customer's reputation from the imputation of foolhardiness, and, if so, he should in justice receive the benefit of such explanation. On the other hand, if he is deliberately taking chances, and refuses to receive the manager's suggestions to the effect that he safeguard himself sufficiently, Head Office should be placed in possession of the item of information. It is well, also, in dealing with the insurance to submit brief remarks stating whether the fire insurance carried represents the obligations of sound and reliable insurance companies.

In certain accounts the matter of life insurance also has considerable consequence. This applies more especially in case of partnerships, and it is of common occurrence for the individual partners to insure their lives in favor of the firm or

company, so as to minimize the risk of disaster or financial shock to the business through the demise of one of the members. When safeguards of this kind have been provided against the contingencies of the future, it necessarily strengthens the proposition in the opinion of Head Office, and the manager should not omit to present the favorable feature.

In commenting on the items of the liabilities, the manager should endeavor to make it clear that in his opinion the liabilities as set forth in the statement represented a full and complete showing, and it is always pertinent to tell Head Office in a few words why it is safe to have confidence in the accuracy of the statement. In other words, the evidence on which the manager bases his belief in the truthfulness of the exhibit should be put forward.

When there are special liabilities—to relatives, friends, etc.—the circumstance should be set out clearly and intelligently, and full explanations given. The existence of such special debts may be a source of great weakness from the bank's point of view. It is well known that a customer in this position will, as a rule, make special efforts to protect these creditors if things go wrong. He may do so through paying them a large proportion of the proceeds of cash sales, or through transferring property of value. In either case the bank's position may be seriously prejudiced, and it is well for the bank to have all the details when special liabilities of this nature are in existence. If they are there, and the branch manager when putting in the application omits or withholds the information, an unfavorable feature of this description is practically certain to come into prominence later. The safe and wise policy is to send Head Office full information in the first place.

It is essential, too, that full information be given regarding the indirect liabilities of the customer, either by way of guarantee or endorsement. If the customer has obligated himself extensively as endorser or guarantor for other parties, the tendency is to weaken his own right to credits from the bank. The holders of these other obligations may press him, perhaps forcing him into insolvency or forcing the bank to take over the liability and add it to its own debt. Of course, if the indirect liability is in connection with paper discounted by the bank itself there can be no concealment or deception practised by the customer; but if it is in connection with paper held by another bank, or by an outside party, concealment might be quite easy. In reporting the indirect liabilities, if the manager is able to give the details regarding paper held by the bank

and to state with all confidence that such comprises the total of the customer's indirect liability, it counts in the customer's favor—providing, of course, that the indirect liability in view of the bank is moderate and reasonable.

It is essential that certain particulars be brought out in connection with the profit and loss account. For example, a statement may show a certain increase in a customer's liquid surplus as compared with the preceding year. An inexperienced branch manager may mention the circumstance as a favorable point without giving any lucid explanation of how the increase came about. A little consideration should make it plain to the manager that a weak or badly pressed borrower might increase his liquid surplus by means of putting a new mortgage on his fixed property, or in some other manner detrimental to his general position. Head Office wishes to know whether the increase of liquid surplus represents real profits. So the manager should give the necessary assurances that proper allowances have been made for depreciation, bad debts, withdrawals, by proprietor or partners, etc. Also, it is pertinent to remark or explain whether the profits as claimed were achieved as a result of specially favorable circumstances of a transient or temporary nature, or whether they were obtained under ordinary or normal conditions. Some managers in sending down their applications omit the profit and loss account altogether. This, of course, makes it so much more difficult for Head Office to judge whether or not the customer is really prospering.

When it can be obtained, it is advisable to get and send down a copy of the merchandise account. This shows the movement of the stock; and on taking the profit and loss account in conjunction with the merchandise account, light is shed on the matter of the average profit secured on the turnover, and on other important matters.

ARTICLE IV.

A FEW general remarks on judging customers' requests for credit and on the manner of forwarding the applications to Head Office may now be in order. When considering a new or enlarged advance it should be constantly remembered that a lot of profit is required to provide for even a small loss. To illustrate this point let us consider the volume of transactions required to make good a loss of $100. A loss of this amount at first sight may appear to the unthinking as a trifling affair, but it involves quite extensive discounting before it is covered.

Remember, it is not fair to count the full amount of discount received as offsetting the loss. Perhaps two-thirds of the gross discount received are swallowed up in expenses—the real profit achieved by the bank in discounting at 6 per cent. is probably not more than 2 per cent. On this basis the bank requires to discount no less than $20,000 for an average term of three months before the apparently trifling loss of $100 is recouped. If the average term be taken at two months, paper to the extent of $30,000 would have to be discounted in order to recover the lost ground.

When due consideration is given to this important point the banker inevitably is impelled to use additional caution or carefulness in extending credit. Consideration of another point will also contribute to the same result. At the principal branches in the leading cities there are continuously in evidence opportunities of lending the bank's funds on absolutely safe security, usually at satisfactory rates. These loans are practically free from risk; and in connection with them the possibility of loss is scarcely considered. So the country managers in making their loans and discounts should bear in mind the fact that as a general rule the bank can largely dispose of its available funds to advantage in this manner. Such reflection will not, of course, cause him to refuse his support to legitimate local enterprises when the requests therefor are presented in suitable form, but it should cause him to use his utmost endeavors to make the local credit transactions as safe and free from risk as possible. In other words, it should have the effect of stimulating his efforts to have his business uniformly safe and sound.

Again, it is well to remember that by the other banks in town, or in the neighborhood, a new manager is usually regarded as "fair game." The chances are that some of the other banks have weak or undesirable accounts to unload; and if the new manager would escape snares he must be at all times watchfully on guard. Sometimes after deciding to recommend a new loan an inexperienced man in charge of a branch attemps to stampede Head Office with the statement that if they do not at once accept the business on the terms proposed there is another bank anxious to get it. That is an old story, which is greeted with a smile every time it reappears.

With reference to new applications, and with reference to existing credits, Head Office has a continuous desire for pertinent information about borrowers and their affairs. Occasionally it may happen that the local banker is handicapped in his efforts to get from customers the desired

particulars by reason of his timidity. This peculiarity of disposition makes him abnormally fearful that the parties from whom information is desired will take offence, and perhaps remove their accounts if pressed for the necessary details. So when propositions are submitted to Head Office, in case of which essential information is lacking, refuge is taken in the statement that Mr. So-and-So is a very sensitive man, who cannot be asked for information without risking the loss of his business. Repeated recourse to this excuse naturally causes Head Office to think that the manager may be afflicted with an excess of timidity. It happens that certain branch managers always have a considerable number of these very sensitive customers in their books, and, of course, it is a natural thought that if a different manager were in charge of one of these branches the customers there might be found to be no more sensitive in general than the customers at other branches.

At the branches great disappointment may be experienced on occasions wherein Head Office intimates that they cannot see their way to acting upon the strong recommendations sent down by the managers. Perhaps in a case of this kind the manager may have worked hard for months in order to prepare the way for taking up an account regarded by himself as positively safe and highly desirable. Some natures grow rebellious, and a manager may even go so far as to criticize Head Office to the other members of the staff, or to the customers. That, however, is not wise policy. The proper course is first to re-examine the presentation of the proposal, with the object of discovering whether the case admits of being strengthened. If there are additional facts or arguments which can be put forward, calculated to cause the experts in the executive office to reconsider the matter, they should be submitted; but, if after facts and arguments have been exhausted, Head Office has not been convinced, it is best to take the denouement philosophically, and accept the opinion of Head Office with a good grace, as embodying a very wide experience.

Sometimes a manager who has been stationed a considerable time in a locality with which he has become thoroughly familiar gradually builds up a business that requires his own personal attention. That is to say, this manager, with his peculiar knowledge and characteristics, is, or may be, able to handle the affairs of the branch without experiencing losses, but the situation may be such as to make it extremely probable that with a new man in charge difficulty and trouble would develop. Obviously Head Office may be reluctant to promote a

manager to whom this description applies, to a more important branch. Thus an able man may lose the chance of using his skill in a large or important sphere. It will be seen, then, that it may be of decided advantage to have the business in such shape that a successor of average ability would have no unusual difficulties to face on taking over the branch. If the new manager comes to grief in connection with some of the specially dangerous accounts acquired and carried by his predecessor, he will in all probability point out that these accounts represented an inheritance from the preceding manager.

Trouble or difficulty may result if the branch manager is in the habit of making private arrangements with his customers, Head Office not being informed thereof. All arrangements covering important transactions should be on record, thus making it clear to all that it is the bank, and not the individual manager concerned, which is a party to the agreement or arrangement. Otherwise a situation might easily arise in which the bank would take the ground that its manager had exceeded his authority, or that it was not bound by the secret undertaking entered into by the manager. In all things the manager should keep perfect faith with customers and with Head Office. He should not be too quick or too ready to make promises, but once he passes his word he should be unfailing in fulfillment. Then all who deal with him can depend on him.

In the correspondence with Head Office regarding the advances made to a certain customer of the branch, it may be the case that a promise is made to the effect that the advance will be repaid or reduced by a certain date. Circumstances, however, intervene, and the promise of payment or reduction is not kept. There is temptation here for the manager to keep quiet about the affair, perhaps in the hope that the delinquency will pass unnoticed. This may be all right if the delay in payment is very short, but if it is to extend over a consequential period, no time should be lost in advising the General Manager of the facts and explaining the delay. By so doing probably a more or less irritable letter from Head Office will be forestalled. A somewhat similar point is involved in transactions wherein the manager, in making advances, exceeds the discretionary powers allowed by Head Office. There will be a certain figure set beyond which the branch manager is not empowered to go without the sanction of the chief executive; and the credits to the more important regular customers are limited to specified amounts. Immediate action may be necessitated involving the temporary assumption by the branch manager of responsibility outside of these limits. Even when

the special transactions are safe beyond peradventure, immediate advice should be sent to Head Office, and confirmation or sanction of the irregularity asked for.

In conducting the correspondence with Head Office, a prime object should be to make the matter easily understood by the man at the other end—the General Manager or Superintendent. Until the manager has acquired the ability of expressing himself readily and clearly at first hand, the practice should be followed of drafting out the letter, and then polishing it up until it is as clear and concise as it can be made. It is well to remember that each communication addressed to Head Office, besides serving its immediate purpose, constitutes a record of the considered opinions of the writer, and contributes something to the estimate being formed by his superiors of his prudence and thoroughness.

Some managers adopt a mistaken attitude towards the inspector when he calls to make his periodical examination. Instead of throwing everything wide open to this accredited representative of the General Manager, they proceed upon the assumption that the inspector's object is merely to discover something with which to find fault. On the contrary, the inspector's prime purpose is to forward the interests of the bank. His duty is to satisfy himself that the loans and discounts are sound, the securities in proper form and according to law, and that the affairs and assets of the branch are exactly as set forth in the balance sheet. So the manager consults his own interest who gives the inspector all possible assistance in carrying out this work. Usually, too, the younger managers may obtain from the inspector advice or information that will be most helpful in enabling them to conduct the branch affairs wisely and safely.

ARTICLE V.

A PERIOD of abnormal business conditions, such as that prevailing in Canada during the great war, calls for the exercise of special watchfulness on the part of bankers of all classes, and it will perhaps be in order to emphasize, for the benefit of the younger managers, some of the points at which the bank may be involved in danger in conducting customers' accounts in such times, and also to mention a few of the safeguards that are commonly applied. Of course, it is the case that the abnormal conditions apply, in the greatest degree, to the business of the large firms and companies whose accounts are carried at the central branches;

but at nearly all of the smaller branches there are accounts that are importantly affected by the unusual circumstances.

The banker cannot for a moment allow himself to forget that the current prices of commodities on which his loans are based, have been ruling at dangerously high levels, and that the special war orders have placed hundreds of industrial establishments on a basis of prosperity that cannot be indefinitely maintained. It is because Head Office is so keenly aware of the dangers resulting therefrom that the instructions from the executive centre have insisted so strongly on unusually large margins of security and on keeping individual loans down to reasonable figures.

At country branches the financial position of farmer-customers has been improved by recent developments. As a general rule the rise in prices of nearly everything which the farmers produce has favorably affected their deposit accounts. Thanks to the large cheques and cash payments received by them for grain, roots, vegetables, fruit, butter, cheese, eggs, live stock, etc., thousands of farmer-depositors, during 1916, have been enabled to add to their savings accounts sums much in excess of the additions made in former years. The cumulative effect is seen in the rise of the notice deposits of the banks. The increase of deposits brought about in this way has been in evidence at Western branches as well as in the East. As, however, the Western agriculturist borrows more heavily than does his Eastern confrere, the improvement in his financial position takes, in larger measure than in the East, the form of reduced obligations, not only to banks, but also to mortgage companies, implement dealers, retailers and other creditors.

Notwithstanding the repayments, the country managers have been required, as in other years, to deal with numerous applications from farmers for credits or loans; and in granting such credits there may be danger of losses unless full allowances are made for the abnormal state of affairs. It is to be remembered first of all that the banks are under obligation to render all possible support to the Dominion Government in connection with war financing, and to the Imperial Government in connection with its purchases in the Dominion. There are also other imperative calls, from large customers engaged in vitally important war work, which must be met. So the country manager has it impressed upon him that loans in such critical times should not be made for unnecessary purposes. For example it is not in the public interest to have the funds of the banks tied up now in loans

arising out of the purely speculative withholding of commodities from market. Such loans are not viewed with favor by the Head Office at any time, but at present they are doubly undesirable. Where loans are made for necessary or desirable purposes, the manager is obliged to consider the probability of wide fluctuations in the prices of the commodities constituting the basis of the credits. In the latter part of 1916, for instance, Winnipeg wheat prices fell in a few weeks from \$2.00 to about \$1.50 per bushel. This served to show the necessity of taking a most liberal discount off current quotations when considering loans against wheat. This would apply not only to the case of a farmer or country dealer borrowing on stored grain, but also to the case of a farmer borrowing through the spring and summer in anticipation of his prospective harvest. The loan in such a case might be based, say, on the probability that 150 acres of seeded wheat would produce 3,000 bushels, of which 2,500 bushels would be for sale. If the banker proceeded on the assumption that the farmer would be able to sell that quantity of wheat in the fall at \$2.00 per bushel, and extended credit on that basis, he might find himself in an awkward predicament at next harvest time, if prices then were around \$1.00 per bushel.

The prevailing high prices affect the position of various other parties who transact business at the country branch; and some of these transactions are more dangerous for the bank than the credits to farmers. There will be comparatively few farmers desirous of discounting in full their harvest prospects, and, as mentioned above, the principal effect of high produce prices on farmers' bank accounts is to increase the deposits. But when agricultural products rise substantially in price, the retail merchants, located in towns and villages in good agricultural districts, often experience a substantial increase of trade. Prosperity among the farmers induces them to buy more goods; and consequently the country merchants buy more freely from the wholesalers at the centres in order to take advantage of the increased local demands.

Where applications for larger credits are made by retailers the banker may with propriety impress on the customer the advisability of using the greatest possible discrimination in purchasing new goods while the outlook is uncertain. This is no time for cluttering the shelves with articles the quick sale of which is problematical or doubtful. The great point is that prices may with suddenness be readjusted to a lower level; and the readjustment might be extensive enough to involve the merchant in losses which would prejudice his

standing at the bank. Again, the correct attitude for the bank to take would be that the retailer should lean on the wholesale house rather than on the bank for such credit as he required. Of course in special cases, where the merchant is known to be in a strong position, and has adequate security of the right kind to offer, the bank could with propriety advance a reasonable amount to enable him to take advantage of cash discounts or special terms, but in view of the heavy demands upon bank funds for Dominion and Imperial purposes, even these loans should not be permitted to reach excessive figures.

Another consideration is that rapidly fluctuating prices invariably lead many of the borrowing customers of banks into speculation. The speculations may be in securities or in commodities which may or may not be connected with the respective lines of regular business carried on by the speculators. When he embarks on a venture of this description, the average customer may endeavor to conceal it from his bankers, especially if it does not turn out well. His operations may affect his line of credit injuriously in several respects. He may remit his cash proceeds of sales to brokers for margin purposes instead of applying them on his debts; or he may endeavor to borrow from the bank more than the authorized amount. The branch manager requires to be continually on guard against such developments as these. He should go carefully over his list of local borrowers; and select those considered as being possibly susceptible to the speculative germ, he should watch very closely indeed the cheques drawn on their accounts and any unusual cheques deposited. In this way it may be possible to discover incriminating evidence before the dangerous stage is reached. Also, in small towns, if the staff are watchful outside of bank hours, they may hear of speculative ventures in which customers are involved. When discovered, these operations, require to be handled promptly and firmly, especially if the speculations are carried with the bank's funds. In the majority of cases to require the customer to close out his venture forthwith and apply all margin or surplus in reduction of his bank loans, is the policy most beneficial to both parties—because with speculators of this type the course of events frequently is that they proceed with their speculations, making small gains until finally they are caught in a crash which wipes out all profits and involves them in crippling losses.

When the speculations are in commodities in which the customer deals regularly, they may be more difficult to discover; but the branch manager is expected to be especially on

guard in handling accounts based on speculative commodities. One effective means of protection is to keep the loans rigorously down to what the parties must have for legitimate purposes; also the manager should be sharply watchful of the security held—this should be sufficient at all times to fully protect the bank's loans.

Directly and indirectly the war orders have stimulated the activity of industries at many country points, especially in Eastern Canada. It may be that a country town has one or more mills or factories that have received large orders direct from the Dominion Government for supplies of clothing or other articles required for the Canadian armies, or there may be contracts with the Imperial Munitions Board for shells or other munitions. In other cases the stimulation to local industry may come in a more indirect manner. Large plants at the centres of industry may draw heavily on industries in smaller places for some of the materials required by them. The unwonted activity of these local industries again serves to stimulate other lines. There is an increased local demand for labor, perhaps at higher than the usual wages. This again reacts favorably on the trade of the district.

The suddenly created prosperity tends to make business more lively at the local bank branches. There are large cheques passing through the accounts directly resulting from the new business. There will be Dominion Government cheques for large amounts; cheques issued by Government purchasing agents, operating in the locality; cheques drawn by, or sight drafts drawn on, the city industrial establishments buying materials there; and other transactions of a special nature. It may be that mines in the neighborhood that had been dead or were merely worked on a small scale, spring into activity again—as a result of the special demand for certain minerals. Of course, the larger credit transactions involved in these operations would be arranged by the Head Office; and in fixing the terms and conditions the general manager would endeavor to safeguard the bank's interest at all points. With respect to these, the country manager will be expected to use especial diligence in seeing that the borrowers live up to their agreements and promises.

In the cases of the smaller customers engaged in special work of the kind referred to, there would be, in all probability, requests for loans in anticipation of contract payments to be made by Government or by large corporations. These propositions, needless to say, require to be thoroughly studied

on the spot, and the details carefully elaborated for Head Office consideration. It is advisable to be assured that the local customer is capable of so handling his contracts, as to produce satisfactory results. For example there should be reasonable assurance that the products he turns out will pass the inspection and be duly paid for. Another important point to make sure of is that if the customer, through inexperience or incapability, takes work that results in loss instead of a profit, his capital is sufficient to stand it, otherwise he will be unable to repay the loans granted to him in that connection.

In regard to all local enterprises that experience unwonted prosperity as a result of a condition of war, the banker should keep constantly in his mind the contingency that peace may come any day. All loans and transactions into which he enters should be conducted in such a way as to ensure that the bank will be unharmed even if the change occurs before the transactions are completed. In the correspondence with Head Office in relation to these transactions, it is advisable to make it clear that in handling the business all necessary precautions to guard against loss from possible collapse in demand or prices have been taken. Also in submitting applications customers should be encouraged to frame their statements and estimates in the most conservative fashion. Extravagant estimates of profits should not be relied upon; and until the profits are in the tangible form of a balance in bank or good bills receivable, or commodities instantly salable even if conditions changed, they should not appear in the balance sheet. Country branch managers also may do good service in influencing their customers who are making abnormally large profits, not to pay them out, but to follow the example of a number of large corporations, and utilize their exceptional earnings to reduce or extinguish floating debt and so improve their liquid position. If this is done, the bank can transact the business of these customers and extend credit to them with all the more confidence in future years.

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